

DSW's ambitious expansion strategy requires careful planning, with the US footwear retailer opening 26 stores in the third quarter of 2012 alone. It hopes next year's move to a 'drop ship' model of stock control will help it grow beyond its physical boundaries.

Seeking the tools to redraw the landscape

As one of the US's fastest growing shoe retailers, it can't be denied that the Designer Shoe Warehouse, or DSW as it's more commonly known, has plenty of confidence. As of early October, the Ohio-based company operated 354 stores in 41 states and 342 leased departments for other retailers. By the end of this year, it will have opened 39 new stores, with 26 in the third quarter alone and more in the pipeline for next year.

Its strengths lie in the vast amounts of stock it carries – each store averages 2,000 square metres and about 24,000 pairs of shoes – and its "value proposition". Its shop layouts aim to "satisfy both the rational and emotional shopping needs of core customers", who are "brand, value quality and style conscious shoppers", offering them a "vast, exciting assortment of in-season styles".

It is this idea of "excitement" that it wishes to engender – its promotional material is littered with the word – plus "happiness", "fun" and "energy". "DSW wrote a new chapter in retail history. It has a business model unlike anything else that's out there," claims chief merchandising officer Debbie Ferrée.

Harris Mustafa, the executive vice-president in charge of supply chain, merchandise planning and allocation, is equally confident of DSW's role: "We are going to redraw the landscape for footwear retailing in the US," he says.

The fourth largest adult shoe retailer in the US has changed strategy in recent years. Prior to 2005 almost 70% of what it sold was 'closeout', or clearance stock. Today only 10% is closeout. "Now that we are a large specialty retailer we needed to be able to plan better, allocate better and integrate these activities in a way that makes sense for our business objectives, our planning process and also supports the merchants," says Mr Mustafa.

It moved from a "mosaic of Excel spreadsheets", databases and independent pieces of technology operating at just above store level to transferring its systems to technology provider JDA's enterprise planning suite. This helped it to improve productivity and efficiency, working from a single platform and making business-wide analysis and decisions.

Effectively managing the supply and distribution chain is a task under constant review. In a recent conference call with

DSW Shoes, Green Oak Village Place in Brighton, Michigan, USA.

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investors, Doug Probst, DSW's chief financial officer, explains that next year a new model should help it to boost growth further: a drop ship. "It's a system we've talked about before but we've not yet had the chance to implement it," he says. "It essentially allows us to display on our website product that is held in the supplier's warehouse, such that if a customer buys it our supplier ships it from their warehouse directly to our customer's home. That will be another source of growth without the space requirements to support it. It will also be a source of growth because it will be differentiated product – product that we wouldn't otherwise have on our website."

This could be seen as following the 'Dell model' of supply – where the customer pays the money upfront before the stock is ordered, minimising risk to the retailer and limiting the problem of unsold inventory. It means DSW will provide the virtual 'shop window' but won't have the costs associated with physically moving and displaying the stock, or have to worry about space constraints.

Often, retailers that drop ship merchandise take measures to hide this fact to avoid any stigma, or to keep the wholesale source from becoming known. This can be achieved by shipping merchandise without a return address (blind shipping) or shipping with a return address which is that of the retailer (private label shipping).

"We are in the process of finishing a fairly significant expansion of our fulfilment centre in order to accommodate growth," says Mr Probst. DSW is spending \$17 million updating its distribution centre and headquarters in Ohio, creating 200 new jobs over the next five years. Its 60,000 square metre distribution centre sends more than 240,000 pairs to its stores each day. With drop shipping, the volumes on its books could increase considerably without affecting its in-house distribution.

To make this model work, DSW will have to boost its online capabilities. General manager of dsw.com Roger Rawlins says, with the party line enthusiasm: "I'm so excited about the growth of dsw.com. As we grow dsw.com we are going to grow dsw.inc and we are excited about the opportunities that creates for our vendors." DSW.inc is the corporate entity, and growing that effectively means adding to the bottom line.

Online shopping looks set to be the biggest game changer for footwear retailers in the near future. Gareth Whiley, head of the retail and leisure team at private equity firm Silverfleet Capital, agrees that companies will have to adapt. "The footwear market has a number of characteristics that set it apart from other retail categories with the retailing of shoes generally still an area of specialism, being logistically different with a need for high stock levels just to make one sale. Growth via the internet is a very interesting area as it potentially solves many of the stock issues. However, shoes are bulky and expensive to ship so pure e-commerce models based on free delivery and free return are unlikely to survive in the long term."

Companies that use the drop ship technique often pocket the difference between the retail and wholesale price, and so free shipping might not be viable, although DSW currently offers free shipping for orders over \$35 as part of a wide-ranging rewards programme, often for restricted periods.

"The dsw.com business is going to continue to grow and be the fastest growing part of our business for the foreseeable future, and we need to be able to support that," says Mr Probst. "We are focusing on the mechanics from a customer point of view in terms of how they interact with the website, we're



One of the shoes from The Glass Slipper Collection, inspired by Disney's Cinderella, which DSW hopes will tap into women's childhood affinity with the character.

PHOTO CREDIT: DISNEY

monitoring local traffic and trying to react accordingly."

While it has previously offered web-exclusive products, it isn't a strategy it is actively pursuing. "We think there might be an opportunity by rationalising the web-exclusive business," adds Mr Probst. "We're trying to run the business as a single business and the more different you make the assortment, the more it fights against that objective."

Mr Mustafa agrees with the potential of the online business. Customers who go into the store shop through other channels – in fact, "multichannel customers spend almost twice as much as a single channel customer". He adds, "It is clear that the retail customer, especially with the advent of user-friendly technology, is looking more and more to be able to buy whatever they want using whatever channel they are comfortable with."

For him, the impact that mobile technology will have on retail is the most interesting proposition the business will face in the coming months. If DSW can harness that opportunity, it will be another revenue stream pushing it closer to its objectives of being "America's favourite place for shoes".



A DSW store interior which aims to "satisfy both the rational and emotional shopping needs of core customers".

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